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ABSTRACT

This paper explores the role of public jobs programs in the U.S. economy from the 1930s to the present. It postulates that jobs programs are necessary because they serve four separate but overlapping needs: alleviating joblessness, hardship, and poverty; helping the economy emerge from recession; providing jobs to able-bodied welfare recipients; and producing needed services that otherwise are neglected. It demonstrates that jobs programs are necessary even in good economic times so that disadvantaged persons can secure employment that the private sector will not give them. It also recounts the problems of previous jobs programs, such as insufficient management, too-rigid selection processes, unworkable compensation formulas, and substitution of federal funds for local government funds, and suggests ways to avoid these pitfalls. Finally, the paper recommends job programs for the 1990s as a way to work out of recession, have needed work done, and promote the work ethic. An appendix contains a table of the annual average consumer price index, 1960-1990. A list of 38 endnotes concludes the document. (KC)

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Spending to Save: Expanding Employment Opportunities

Sar A. Levitan and Frank Gallo

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PREFACE

The title of this paper was originally used by Harry Hopkins, the champion job creator dating back to the New Deal years. After more than half a century, we thought that the time was long overdue to revive Hopkins' message.

In line with the adage that "a dollar ain't what it used to be," this paper adjusts all monetary amounts to 1990 dollars. This permits comparability of program magnitudes over time. For example, the purchasing power of a dollar in 1970 was 3.2 times as high as in 1990. An appendix provides a table for readers who may be interested in converting 1990 to current dollars.

*I*n good times and bad, millions of jobless Americans seek work in vain. Once a pressing concern, the plight of these individuals has been shunted aside because of indifference, pejorative attitudes toward jobs programs, and the federal budget deficit. Ironically, recent support for jobs programs has emanated from the conservatives who castigated the programs of the 1970s. Requiring recipients to work in return for welfare benefits—commonly called workfare—necessitates public job creation. That this "rose (or weed) by any other name" refuses to wilt suggests a continuing need for jobs programs.

Reliance on public job creation in response to recessions or high unemployment has become almost a tradition. The federal government has mounted jobs programs following every economic downturn of the past three decades. Rising unemployment creates powerful pressure on Congress to respond. During the recession in 1982, more than a fifth of the labor force was jobless at some point—over 26 million individuals. The poverty rate exceeded 15 percent for the first time in nearly two decades. Amid a conservative public mood, three quarters of Americans polled in January 1983 favored a jobs program even if it boosted the budget deficit. Although President Reagan in mid-1981 successfully convinced Congress to abolish a large-scale jobs program, by March 1983 he approved another costing $6 billion.

THE RATIONALE FOR JOBS PROGRAMS

*P*ublic job creation serves four separate but overlapping needs. The programs, of course, alleviate joblessness, hardship and poverty. If sufficiently large, the expenditures can help the local or national economy emerge from a recession. Providing jobs to able-bodied welfare recipients is a necessary complement to a welfare system, promoting the work ethic and self-sufficiency. Finally, jobs programs pro-

duce needed services that otherwise are neglected. Although precise estimates are lacking, the costs of jobs programs are mitigated if not outweighed by the benefits. The wages paid by jobs programs replace a portion of welfare disbursements and unemployment insurance. Subject to income taxes, the wages directly return money to government treasuries. The services and public works supplied through subsidized jobs provide useful and sometimes enduring benefits to society. Job programs in both the short and long runs reduce the likelihood of crime and welfare dependency.

President Roosevelt succinctly stated the moral case for subsidized jobs in his 1944 economic bill of rights: "True individual freedom cannot exist without economic security and independence. Necessitous men are not free men."[1] The economic rationale for countercyclical public job creation is that market economies emerge slowly from downturns and that governmental spending accelerates recovery and may prevent lengthy stagnation. Opponents of job creation have displayed a propensity to ignore the salutary impact of job creation, but political considerations seem to overcome their biases. Charging that funding jobs for the unemployed ended up in "WPA-type jobs" (without explaining what was wrong with WPA jobs), President Nixon vetoed in December 1970 a bill that included a job creation program but approved a similar provision closer to the 1972 elections. President Reagan staunchly resisted job bills even when the unemployment rate approached 10 percent, but changed course after the November 1982 elections when 26 Republicans lost their congressional seats.

Employment difficulties are not restricted to recessions. Even during economic recovery periods many areas experience recessionary unemployment levels. In mid-1990 the national unemployment rate was at its lowest point in over 16 years, but one in seven states and more than one in six metropolitan areas experienced jobless rates of 7 percent or higher. Some areas—Appalachia is the best known—have persistently endured hard times even when the national economy flourished.

Similarly, some individuals—especially the poor—experience joblessness in a healthy economy. Prior to the current recession, unemployment levels were low relative to most of the 1980s, but historical and international comparisons indicate that the economy could have done much better. During the 1950s and 1960s many American policy-

makers and economists regarded 4 percent unemployment as equivalent to full employment, a level attained only during wartime. In contrast, Japanese and Swedish unemployment has remained below 4 percent for three decades.

Arguments that unemployment is due more to individual choice than to job shortages is at best a half-truth. A large-scale experiment during the late 1970s refuted the contention that high youth unemployment is voluntary. When poor youths aged 16 to 19 who had not completed high school were offered a guaranteed job, they responded en masse. In the 17 participating communities, four of five eligible youths who learned of the program applied, and three fifths of all eligible youth participated. The program was so potent that it raised the overall employment/population ratio of poor teenage blacks and Hispanics above that of poor whites.[2]

The job entitlement experiment also demonstrated the inability or reluctance of businesses to hire the disadvantaged. Offered a 100 percent wage subsidy, hiring and firing discretion, and no responsibility for incidental paperwork or benefit costs (including wage disbursement and tax withholding), less than a fifth of employers approached agreed to hire any disadvantaged youth. Most stated that they had no need for additional employees, even at zero costs.[3]

Public jobs programs have traditionally enrolled voluntary applicants, but the recent debate has revolved around mandatory employment for welfare recipients. The widespread assumption that recipients must be forced to work is undoubtedly exaggerated, as work participants surveyed to date generally welcomed an opportunity to acquire work experience and skills.[4] Nonetheless, the challenge is daunting in scope. In 1988 a monthly average of 3.1 million jobless adults who were neither sick nor in school obtained aid to families with dependent children (AFDC)—86 percent of the total adult caseload. Proponents of diverse socioeconomic philosophies forged a consensus, embodied in the 1988 Family Support Act, that education, training or jobs should be provided to many of these adults.

Public jobs programs would partially replace the tens of billions of dollars the federal government currently spends on welfare and employment-related assistance. Despite a rhetorical adherence to the work ethic, the government devotes far more resources to cash payments and services for the jobless and employable poor than to helping them earn

a living. Rigid employment restrictions for welfare and disability assistance recipients effectively discourage beneficiaries from working. Meagerly funded training programs encourage self-sufficiency, but without enough jobs the applicants' newly acquired skills will go for naught, and this may also discourage others from undertaking training.

Millions of Americans need or could benefit from public jobs, but pinpointing the extent of the problem is difficult. The official unemployment count includes jobseekers only, excluding those who desire work but have given up searching. Relatively brief jobless spells usually engender little hardship, and therefore do not necessitate a public policy response, but long-term unemployment remains widespread even during prolonged recovery. In 1989 during the sixth year of recovery, when civilian unemployment was at its lowest level in more than 16 years, 6.5 million individuals were unemployed 15 weeks or longer. Extended joblessness has risen during the current recession.

Governmental job creation policy has veered from major commitments during the 1930s and 1970s to virtually no funding during the two decades following World War II. Typically encompassing several concurrent programs rather than an integrated effort, the programs have performed two traditional governmental functions: providing services and supporting physical infrastructure. The government has also invested substantial resources in public sector work experience and private sector on-the-job training programs. Ostensibly training projects, these programs are in practice job creation endeavors because little training occurs.

Public jobs programs operate within a complex web of routine governmental responsibilities. Because recent programs have paled next to the scope of the New Deal efforts, there is little likelihood that jobs programs would disrupt ordinary governmental activities. At their peak in 1978 jobs programs provided about a million full-time equivalent job slots, compared to 15.5 million total government workers. Congress appropriated $12.7 billion in 1976 and 1977 for the largest recent public works jobs program, compared to more than $100 billion for total governmental public works spending for these two years.

Job creation is one of several efforts designed to alleviate joblessness. Others include unemployment insurance, training programs, welfare assistance, wage subsidies for pri-

rate employers, programs which encourage retirement, immigration restrictions, and antidiscrimination laws. Other countries have adopted employment policies that the United States has used sparingly, if at all, including restricting job dismissals, short-time compensation programs to share employment, and relocation assistance.

Jobs programs, along with education and training, seek to promote employment, in contrast to cash support programs (including AFDC, unemployment insurance, and social security) which pay individuals who are neither working nor in training. The United States, like most nations, has emphasized income support for the jobless rather than employment and training programs.

FROM THE NEW DEAL TO A NEW MILLENNIUM

The federal government first enacted a jobs program to alleviate the ravages of the Great Depression during the 1930s. At their peaks in January 1934 and November 1938, New Deal programs employed 4.6 million persons, but even this monumental accomplishment left more than two of three jobless without work.[5] President Roosevelt's numerous New Deal employment programs sought to meet a variety of needs in addition to relieving distress. The Civilian Conservation Corps and the Public Works Administration, the first two programs enacted, were the most durable. The CCC hired jobless youth and young adults to promote natural resource conservation, and the PWA sought to revive the construction industry and restore the nation's infrastructure. The short-lived Civil Works Administration was the single largest employment program. Initiated to shift the relief emphasis from welfare to work, CWA began hiring in November 1933 and within three months employed more than four million workers, primarily on labor-intensive public works projects.[6] The best known of the New Deal jobs programs, the 1935 Works Progress Administration (later

renamed the Work Projects Administration), performed almost every type of work conceivable, although labor-intensive public works accounted for nearly four-fifths of total expenditures. Concurrently with the WPA the Roosevelt administration established the National Youth Administration. The program, which employed 800,000 at its peak in 1940, contained in-school and out-of-school components, the latter closely resembling the WPA. The in-school program provided students with subsidized part-time jobs to encourage them to remain in school, and reduce competition with adult jobseekers.

The accomplishments of the New Deal work programs demonstrated conclusively the value of the undertaking. The Public Works Administration built or assisted in building some of the largest and best-known public works in America, including the Grand Coulee dam, the Tennessee Valley Authority, the Lincoln Tunnel and the Triborough Bridge in New York City, and even the naval carriers Yorktown and Enterprise.[7] The Work Projects Administration built 617,000 miles of new roads, and built or repaired 124,000 bridges and viaducts, 120,000 public buildings, and 30,000 stadiums, parks, playgrounds and athletic fields. The restoration or construction of Independence Hall in Philadelphia, Faneuil Hall in Boston, the Chicago waterfront, and New York's Central Park Zoo are some of the better remembered WPA projects. The workers also sewed nearly 400 million garments, served more than 1.2 billion lunches, and orchestras played 6000 concerts. Orson Welles, Jackson Pollock, and Richard Wright were among numerous young artists and authors employed by the WPA.[8] Ignoring its numerous accomplishments, critics attacked the projects for "boondoggling" and "make-work," and some wags claimed that the program's acronym stood for "we piddle around." The absurdity of these charges was depicted in a contemporary cartoon. It showed two ladies emerging from a chauffeur-driven limousine in front of a shining new bridge with the plaque, "BUILT BY PWA." One asked, "Hortense did they build all this while leaning on their shovels?" Public ambivalence toward job creation was vividly demonstrated in a 1939 opinion poll asking respondents to name the best and worst things done by the Roosevelt administration: the WPA led the list in *both* categories.

The planners of the 1935 Social Security Act believed that a permanent jobs program was a critical third leg of

social welfare policy, complementing old age and unemployment insurance. However, the New Deal did not seek to establish permanent employment programs to avoid charges that the administration was abandoning hope of reviving the market economy, and by the end of the 1930s Congress would probably not have approved lasting programs. A booming war and post-war economy made jobs programs seem irrelevant, and the 1946 Employment Act constituted no more than a pious endorsement of "maximum employment, production, and purchasing power."[9] For nearly two decades after the New Deal, the federal government funded no job creation programs.

This long drought was followed by more limited public job creation experiments. In early 1962, President Kennedy asked Congress for permanent authority to spend up to $8 billion on public works at the onset of a recession. Congress instead approved a one-time appropriation of $3.6 billion (table 1). The government considered the 1962 unemployment rate of 5.4 percent, following the 1960–61 recession, unacceptably high.

TABLE 1. Major jobs programs since the New Deal.

Program	Principal years of operation	Total federal outlays	Peak outlays	Peak employment
		(billions of 1990 dollars)		(thousands)
Accelerated public works program	1963–1965	$3.2	$1.3 (1964)	46 (1964)
Public employment program	1972–1974	6.1	2.8 (1973)	185 (1972)
Job opportunities program	1976–1977	1.0	0.8 (1976)	NA
CETA public service employment	1975–1981	43.1	11.1 (1978)	752 (1978)
Local public works program	1976–1980	11.0	5.9 (1978)	79 (1978)
Emergency Jobs Act	1983–1986	5.8	2.3 (1984)	NA

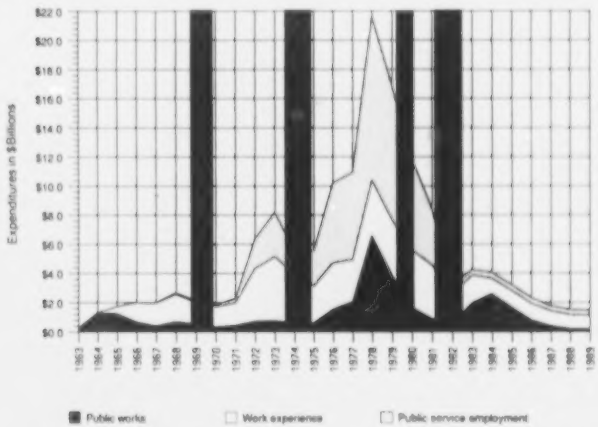
Sources: U.S. Office of Management and Budget; U.S. Congressional Research Service; and U.S. General Accounting Office

Starting with the Area Redevelopment Act of 1961, most other jobs programs during the 1960s involved minor outlays. The Neighborhood Youth Corps, created in 1964, became the largest job creation effort of the 1960s. Targeted towards poor youngsters, the program contained in-school, out-of-school and summer components, the last of which is the antecedent to the current summer youth employment program. Smaller jobs programs included Operation Mainstream for older workers, the predecessor of the current senior community service employment program.

The 1960s witnessed the longest economic recovery period in American history, and at the height of the Vietnam War the civilian unemployment rate dropped to 3.4 percent. Full employment did not last, and by the end of 1970 the jobless rate had risen to 6 percent, where it remained throughout 1971. The resulting Emergency Employment Act of 1971 was the first antirecessionary jobs program which emphasized public service rather than public works employment. Following his reelection in 1972, President Nixon abandoned support of public employment and let the program expire at the end of its two year authorization. However, President Nixon's preoccupation with the Watergate conspiracy allowed Congress to include a minor jobs component in the November 1973 Comprehensive Employment and Training Act.

The next few years witnessed an expansion of jobs programs, peaking in 1978 at nearly $22 billion (figure 1). Reacting to the then-worst recession since the 1930s, Congress in December 1974 pumped an additional $2.2 billion into public service jobs, and simultaneously appropriated $1.3 billion for the Job Opportunities Program, a public works effort administered by the Commerce Department. In addition to explicit job creation, Congress also boosted investment in work experience programs, which were in effect public service jobs designed for a less job-ready clientele.

FIGURE 1. The rise and fall of federal jobs programs.



Sources: U.S. Office of Management and Budget and miscellaneous other sources

Apart from the impetus provided by a steep recession, the mid-1970s marked the heyday of job creation as a tool to alleviate poverty and unemployment. Education, training, and social services programs did not produce the quick fixes anticipated by some policymakers and advocates. For a while debate centered on a guaranteed incomes policy or a guaranteed right to employment (government as an employer of last resort) as alternatives to welfare and employment programs, but the proposals failed to receive serious congressional consideration.

With the inauguration of President Carter, the Democrats controlled the executive and legislative branches for the first time in eight years. Although by the time President Carter assumed office economic recovery was well underway, within six months the federal government financed 450,000 additional public service jobs, increased public works jobs spending by two thirds, enacted a variety of youth employment programs (Youth Employment and Demonstration Projects Act), and gave a tax credit to private firms which augmented their workforce (New Jobs Tax Credit). Each of these programs constituted a major investment, and collectively they far surpassed any effort since the New Deal.

Jobs programs subsequently contracted almost as suddenly as they had expanded. Three factors undermined public and congressional support for job creation. First, media reports of waste and abuse in CETA by local administrators, although unrepresentative of overall operations, generated public opposition to the program. Second, the enthusiasm of politicians for funding public service jobs waned when eligibility restrictions required layoffs of higher paid employees and their replacements lacked political clout. Third, as unemployment dropped public concern shifted to rising inflation. In late 1978, Congress revamped public service employment legislation, restricting eligibility to the hard-core jobless and instituting strict monitoring to limit mismanagement and fraud.

A related employment policy concerned the Humphrey-Hawkins Full Employment and Balanced Growth Act. The goal of full employment never garnered much support in Congress and opponents succeeded in watering down the originally proposed guaranteed employment goal. The final legislation did little more than repeat the pious pronouncements of its 1946 predecessor. In the next two years, President Carter and Congress focused on

attempts to balance the budget and fight inflation. As a result, jobs programs suffered cuts along with other social spending.

The 1980 election installed a determined opponent of federal social welfare programs. Ironically, the federal government abolished public service employment as the nation entered the worst recession since the Great Depression. Observers have offered various explanations for the failure of former advocates to protest the Reagan administration's elimination of the program. The public's support for jobs programs has consistently been broad but shallow, and during his first year in office President Reagan encountered only muted opposition to sharp cuts in other social welfare programs.

Despite a continuous climb of unemployment to 10 percent during fall 1982, President Reagan steadfastly opposed a new jobs program, contending that employment and training expenditures of "$66 billion got us nothing but an increase in unemployment."[10] The Republican party's loss of 26 seats in the House of Representatives in the November election altered the context of the jobs debate. Within three weeks Reagan and the Republican Senate leaders endorsed a five cent per gallon hike of the federal gasoline tax, included in the January 1983 Surface Transportation Assistance Act. The president insisted that the tax was a highway—not a jobs—measure, but whatever the label the revenue substantially boosted expenditures for public works jobs.

A $6.0 billion Emergency Jobs Appropriation Act followed in March 1983. This hybrid compromise funded primarily public works jobs but also included other components, distributed as follows:[11]

public works jobs	70%
public service employment	18
income support	9
training	3

President Reagan rationalized his accession to a jobs program by inaccurately insisting that the law merely sped up outlays on projects already authorized, and would not involve deficit spending.

The Reagan administration's policies demonstrated that a strongly committed and popular president, opposed to federal intervention addressed to correcting economic ills,

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could persuade the public to tolerate far higher levels of unemployment than most observers had believed. The job creation efforts which survived the Reagan years did so because of their small size, potent constituencies or because they were not labeled jobs programs. The senior community service employment program and the Native American component of the Job Training Partnership Act are the only two programs which explicitly authorize public service employment. The Reagan administration's tolerance of the former reflected senior citizens' political clout and widespread public sympathy for assistance to the elderly. Congress continued its support for public service employment on Indian reservations because existing job deficits, as high as 50 percent on some reservations, could not be ameliorated by the private sector alone. The targeted jobs tax credit, which replaced in 1978 the massive 1977 new jobs tax credit, provides a wage subsidy to employers who hire 16 to 22 year-olds living in low-income households, welfare recipients, and handicapped individuals undergoing vocational rehabilitation, among other groups. During the 1980s Congress limited this small program and it continually faced extinction but Congress has persisted in extending the legislation.[12]

The larger job creation efforts have survived because they were labeled training programs, including vocational rehabilitation for the disabled and two components of JTPA. Vocational rehabilitation, dating back to 1921, often entails subsidized jobs rather than training. The summer youth employment program (Title IIB of JTPA) provides education to a few enrollees but is otherwise a work experience—i.e., jobs—program. The largest component of JTPA (Title IIA) assigns a third of its participants to job creation programs, but classifies these efforts as work experience and subsidized on-the-job training in the private sector. OJT participants ostensibly receive training, but past examinations indicate that few enrollees obtain it, and many firms select applicants with relevant prior experience. OJT is too frequently a windfall for employers, and more closely approximates the targeted jobs tax credit than classroom training.

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THE LESSONS WE HAVE (OR SHOULD HAVE) LEARNED

Conventional wisdom regards public job creation as a thoroughly discredited idea. However, an unjaundiced review demonstrates the value of jobs programs in reducing unemployment, replacing welfare with work and supplying needed services.[13] Job creation also matches training programs in enhancing participants' subsequent earnings. Program administration presents daunting challenges, but past mismanagement need not be repeated if policymakers would take the trouble to learn from past mistakes. The proper response to joblessness and welfare dependency should be to fashion improved jobs measures, not to ignore deprivation. Even prolonged recovery periods leave millions of individuals and families mired in poverty. The experience during the 1980s has amply demonstrated the need for a jobs program during bad and good times.

The welfare reform legislation of 1988 presents the most cogent argument for a continuing jobs program. The legislation requires the states to educate and train welfare recipients to help them attain economic independence. But if insufficient employment opportunities for job-ready welfare recipients persist, many will blame the recipients for shirking work. The danger exists, therefore, that in the absence of jobs, the nation will give up on reforming welfare.

The following discussion of the lessons we can learn from past jobs programs focuses necessarily on reducing unemployment, because that was largely the rationale for PSE programs. The insights provided by the 1970s efforts apply to a large extent equally to generation of jobs aimed to help welfare recipients to become economically self-sufficient. The experience and problems involved in designing and administering PSE for the unemployed apply to implementing job programs for welfare recipients. The issues to be considered include: the aims of the efforts, the costs and reasonable magnitude of the programs, managerial challenges in operating the programs, selection of clientele for jobs programs, prevention of substitution of federal funds for state and local outlays, and determination of compensation levels.

Aims and Achievements

Combatting recessions and dependency Because of sluggish congressional reaction, public jobs spending has had little countercyclical impact. Only once in the last three

decades has Congress initiated or expanded a jobs program before a recession ended, and on that occasion it acted three months before the conclusion of the downturn. Delays could be overcome through the use of an automatic triggering device tied to rising unemployment. A continuing program would facilitate a timely response to recessions, as an administrative structure would exist and contingency plans could be prepared for a rapid build-up of jobs.

One obstacle to a timely countercyclical response is that recessions are easier to recognize in retrospect than to predict. The "official" definition of the beginning and end of recessions has traditionally been determined by a committee of the private National Bureau of Economic Research. The committee members never erred in determining the beginning or end of a recession because they always postpone their findings until all the relevant data are in. By that time their careful review of the data are only of historical interest but of little, if any, help to policymakers. Because unemployment rates typically do not peak until recessions end, opponents of jobs programs have been able to delay enactment by plausibly arguing that unemployment rates are still relatively low. Civilian unemployment rates for the first year of each major recession follow:

1960–61	5.7%
1969–70	4.7
1973–75	5.3
1981–82	8.5

A review of the postwar experience suggests that policymakers could respond to recessionary unemployment with much greater rapidity. Trends since 1948 indicate that a rise in the seasonally adjusted unemployment rate of more than half a percent either precedes or shortly follows the "official" onset of recessions. The present recession's experience seems to fit the established pattern. In the future, increases of the seasonally adjusted unemployment rate beyond half a percent should serve as a warning signal and automatically release job creation funds. In 1978 Congress amended the Comprehensive Employment and Training Act. The change authorized a trigger mechanism providing for release of federal funds to create jobs for 20 percent of the unemployed in excess of 4 percent and 25 percent when unemployment rose above 7 percent. The act did not require added appropriations and consequently proved to be an empty promise because the executive and legislative branches ignored the law.

Implementation necessarily lags behind enactment, although jobs programs have been erected at speeds which are the bureaucratic equivalent of lightning. Thus the blame for poorly timed initiatives rests with Congress rather than with administrators. Harry Hopkins began the Civil Works Administration in November 1933 and hired more than four million workers within three months, a feat closely studied by the military for its relevance to wartime mobilization.[14] Hiring build-ups in the 1970s were of a much smaller scale but nonetheless impressive. In 1975 employment increased by 183,000 in the first three months following the approval of appropriations, and by 170,000 in the third quarter of 1977. Rapid implementation carries some risk of administrative pitfalls, which the public tolerated much less in the economic recovery years of the late 1970s than it had in recessions.

Public works jobs programs are subject to greater delays due to the necessity for detailed planning, obtaining construction permits, purchasing equipment and materials, and hiring skilled labor. Seasonal and weather conditions alone can delay start-ups by several months. Aside from the higher costs per job, it is therefore more difficult to use public works than public service jobs as a countercyclical tool. However, labor-intensive public works projects can be mounted quickly.

Even with needed reforms, job creation programs can serve only as a supplementary countercyclical measure rather than an alternative to monetary policy and unemployment insurance. Monetary responses to economic downturns are more potent than unemployment insurance, but action by the former may and is frequently subject to political constraints. In contrast, eligible unemployed persons are almost immediately entitled to receive UI payments, and the funds are directly targeted to assist the victims of recessions. Incremental UI funding increases from one year to the next during recessions have been at least $5 billion, and have significantly exceeded jobs outlays (table 2—next page).

TABLE 2. Unemployment insurance has more effectively combatted business downturns than jobs programs.

Recession	Fiscal year	Increase or decrease over previous year (billions) Jobs programs	Unemployment insurance	Federal deficit
April (begins)	1960			
February (ends)	1961	NA	$8.0	$10.0
	1962	NA	decrease	18.6
	1963	0.2	decrease	−12.7
	1964	1.0	decrease	5.0
December (begins)	1969			
November (ends)	1970	−0.3	5.9	22.4
	1971	0.4	8.9	66.0
	1972	4.1	decrease	decrease
November (begins)	1973			
	1974	−2.7	5.2	−27.3
March (ends)	1975	0.1	26.5	111.7
	1976	4.6	decrease	36.8
January (begins) July (ends)	1980	−5.1	8.5	47.2
July (begins)	1981	−4.6	−3.6	−3.7
November (ends)	1982	−4.1	11.6	59.1
	1983	1.1	decrease	97.3

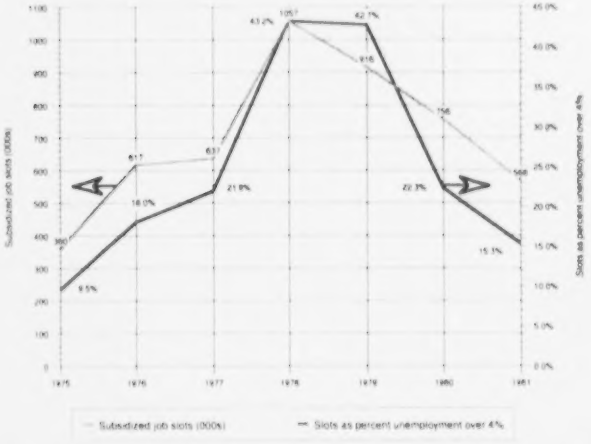
Sources: U.S. House Committee on Ways and Means, *Federal-State Unemployment Compensation System*, September 8, 1988, pp. 428–9; U.S. Office of Management and Budget, *Historical Tables*, Fiscal Year 1990 Budget, pp. 19–20.

If properly implemented, future public job creation could play an important albeit not a major role as a federal countercyclical tool, but play a significant role for implementing welfare reform policy. To fulfill the countercyclical role, the programs should be expanded automatically with a rise in unemployment. If funds are not increased, welfare recipients may be crowded out from the program. Secondly, the countercyclical element of job creation must rely upon public service, and labor intensive public works employment should be used sparingly. Finally, states and localities should have project plans in reserve to facilitate a rapid build-up. If Congress establishes a permanent jobs program, responding quickly to recessionary unemployment will not be crucial, because job ready welfare recipients have always been available and because high unemployment persists beyond the "official" end of the recession.

Generating jobs Job creation programs, when adequately funded, significantly reduced unemployment and therefore social insurance and welfare expenditures as well. The fact that jobs programs enrollment, even at their peak, accounted for no more than a fraction of total unemployment caused some to mistakenly underestimate their true value. An appropriate performance indicator is to gauge the share of unemployment alleviated above a reasonable, or

some might say ambitious (for the 1990s), target of a 4.0 percent unemployment rate. Based on this goal, employment programs at their height reduced the job deficit by 43 percent (figure 2).

FIGURE 2. Job creation programs, at their peak in the late 1970s, significantly reduced unemployment.



Note: Subsidized job slots include CETA public service employment and work experience programs, public works jobs, and the senior community service employment program.

Sources: U.S. Congressional Research Service, *The Comprehensive Employment and Training Act: A Compilation of Data*, pp. 6-7, 12-13; William Mirengoff et al, *CETA: Accomplishments, Problems, Solutions*, p. 81.

Inadequate data hamper assessments of the programs' job creation impact. First, survey enumerators may not always have properly classified public service workers as employed. Second, jobs outlays have indirect and multiplier effects. Subject to widely varying estimates, these effects are especially important in public works programs where more money is spent on equipment and materiel than on direct compensation which produces jobs.

On the other hand, disregard of substitution (discussed later) and the extent to which jobs programs entice individuals to enter the labor force tend to overstate the employment impact. Job creation programs may induce some individuals not in the labor force to seek publicly created jobs. Assuming that program administrators accurately distin-

guished between unemployment and being out of the labor force, roughly a fifth to fourth of PSE or work experience enrollees were previously out of the labor force, rather than unemployed, when they got their jobs:

	Public service employment	Work experience
1975	17%	NA
1980	21	28%

The distinction between being unemployed or out of the labor force is sometimes arbitrary. An individual who cannot find employment may stop searching and is therefore not officially counted as unemployed. This finer distinction may be of little interest to administrators of jobs programs. For example, few would argue that welfare recipients not seeking employment according to the BLS definition should be denied a job slot.

It is difficult to gauge program impact by tracking employment trends because, even at their peak, jobs programs constituted a small share of the total workforce. However, youth employment trends reinforce other evidence on job creation. The ratio of employment to population among 16 to 21 year-olds was nearly two percentage points higher in an average month in 1978 than in 1987 despite nearly identical unemployment rates. The creation of some 370,000 additional jobs closely fits the discrepancy between youth employment in 1978 and a decade later. The job creation programs of the late 1970s had their greatest impact upon minority youth. In 1979 more than two fifths of 14 to 19 year-old employed blacks and nearly a quarter of employed teenage Hispanics worked in subsidized jobs.[15]

The employment potential of jobs programs was even more powerfully demonstrated by a late 1970s program that guaranteed work in 17 communities to poor youth aged 16 to 19 who had not finished school. The experiment increased the employment/population ratio of poor teens to 41 percent, compared with 25 percent in similar communities not participating in the experiment. The entitlement most dramatically influenced minority youth employment levels, raising them above the employment/population ratios of whites.

Most jobs programs have been enacted or expanded close to peak unemployment rates, with the exception of the 1962 Accelerated Public Works program and the job cre-

ation build-ups in 1976 and 1977. As noted already, better timing would have enhanced the programs' effectiveness in alleviating recession and hardship. The fact that unemployment rates remained at least 5.5 percent one year after congressional action indicates that the programs were meeting real needs in putting the jobless to work, and not exacerbating inflation (table 3).

TABLE 3. Despite delayed enactment, jobs programs have created needed jobs.

Unemployment rates at various periods

Recessionary peak		Program enactment or expansion		One year after enactment
7.1%	May 1961	5.6%	Accelerated Public Works (September 1962)	5.5%
6.1	December 1970	6.0	Public Employment Program (July 1971)	5.6
	August 1971	6.1	Public Works Impact Program (August 1971)	
9.0	May 1975	7.2	CETA Title VI and Job Opportunities Program (December 1974)	8.2
			Local Public Works I (July 1976)	6.9
			CETA PSE expansion, Local Public Works II, and New Jobs Tax Credit (May 1977)	6.0
10.8	Nov./Dec. 1982	10.3	Emergency Jobs Act (March 1983)	7.8

Source: U.S. Bureau of Labor Statistics

Compared to alternative measures, public service and labor-intensive public works jobs programs guarantee the most direct and probably the greatest net impact in raising employment at the lowest investment per job.[16] These programs have devoted 80 to 90 percent of total expenditures to wages. In contrast, the late 1970s Local Public Works Program spent only 22 percent of total funds on wages.

The subsidization of private sector jobs is an extremely problematic means of generating employment. Firms that participate in the current subsidized private sector jobs programs, the Targeted Jobs Tax Credit and the Job Training Partnership Act's on-the-job training component, often seek subsidies for individuals the companies would have hired in any case, or sometimes already have hired. About 60 percent of employers participating in JTPA acknowledged that they would have hired JTPA on-the-job trainees without the inducement. In the case of the largest subsidized private sector jobs effort, the New Jobs Tax Credit, the enthusiasm for job creation exceeded reasonable standards. The estimated cost of the program, during its brief

existence in 1977–8, amounted to $11.3 billion. Firms which increased their workforce were eligible for the credit, with no restrictions on the types of individuals hired.[17] In practice the program was costly, administratively unwieldy, and it proved impossible to gauge how many new jobs resulted.

Providing services and public works Congress mandated that the jobs program provide useful services and meaningful employment experiences without substituting for or competing with government or private sector operations, a goal not easily met. During the Great Depression, when the economy indisputably failed to fulfill basic services, private industry complained even about publicly-created ditch digging jobs.[18] Much more is known about the fruits of New Deal work projects than more recent efforts due to inadequate data collection. WPA director Harry Hopkins was able to substantiate the accomplishments of jobs programs, but two score years later Labor Department officials could do no more than spout generalities about the societal benefits reaped from multibillion dollar expenditures. While media reports on waste and abuse were plentiful, Congress and the public had no information on program accomplishments. Federal inattention to program accomplishments represented both a managerial and a public relations failure, because popular support depends critically on whether projects produce valued services and public works. The largest public works jobs program since the New Deal, the Local Public Works program of the late 1970s, maintained some record of accomplishments for the 10,600 projects funded. The Local Public Works program built or renovated more than 5000 buildings, nearly 2500 water or sewer facilities, and 600 park or commercial sites.[19] Detailed reports on the uses and accomplishments of future funding should be mandatory.

In December 1977, just before job levels peaked, 70 percent of public service employees worked in the areas of social services, public works, education, parks and recreation, or sanitation or utilities. Cutbacks after 1978 resulted in a concentration of almost half of total jobs in social services and education, as follows:[20]

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	1971–3	December 1977	December 1979
Social service	7%	19%	23%
Public works	19	14	14
Education	19	14	24
Parks and recreation	9	12	8
Sanitation/utilities	5	11	4
Police and fire protection	17	7	8
Health care	8	6	7
Culture and art	NA	4	4
General administration	3	5	7
Miscellaneous	12	8	2

Social services involved assisting patients released from mental institutions, services for the elderly, aid for battered women and children, job search and legal assistance for the poor, the care of alcoholics, and helping public housing tenants manage their budgets. Housing projects typically entailed repair or weatherization of low income housing.

Two major independent evaluations sponsored by the Labor Department concluded that the overwhelming majority of public service employment activities appeared to be beneficial. In addition, 84 percent of local officials in 1977 who supervised public service employees rated their performance as equal to or better than regular government workers in similar jobs, but these favorable responses dropped to 61 percent by 1980, reflecting the increasingly disadvantaged backgrounds of PSE workers.[21]

The type of work performed of course varied by supervisory agency. Local governments tended to retain half or more of PSE slots, although private nonprofit organizations' share of the total rose steadily from 15 percent in 1975 to more than a third by the program's end. School districts and state or federal agencies combined were allocated at most a fifth of all jobs slots. The U.S. Labor Department encouraged contracting out to nonprofits, and local officials' reliance upon nonprofits surpassed departmental regulations, possibly because increasingly lower wage levels and eligibility restrictions made PSE employees less attractive to government agencies.

As far as job creation programs are concerned, there is little difference between labor-intensive public works and public service. To avoid administrative duplication this

would argue for delegating managerial responsibility for both types of work to one agency. The practice during the 1970s was to assign public works to the Commerce Department and PSE to the Department of Labor.

Reducing dependency on welfare A job creation program encourages the work ethic among recipients and supplies an essential adjunct to education and training programs. The aid to families with dependent children program contains stronger work disincentives than other social programs because it assists many able-bodied individuals and, once qualified, many recipients obtain benefits for several years. In 1988, during an average month, 3.1 million jobless adults who were neither sick nor in school obtained AFDC—86 percent of the total adult caseload.

The experience of Massachusetts' statewide voluntary work/welfare program indicates that compulsion may be unnecessary to secure enrollment by AFDC recipients. Although Massachusetts' AFDC payments are among the highest in the country, two-thirds of recipients in the year ending in July 1987 had participated at some point in the work program. Half had participated beyond the orientation and assessment stage and obtained one of several education or training services offered by the state.[22]

The 1988 Family Support Act requires the states to offer in addition to education and skills training, two of these four services: job search assistance, private sector on-the-job training, work supplementation (which allows the state to use the welfare grant to subsidize jobs for recipients), and work experience programs. Only the last two services involve publicly created jobs. However the 1988 law required states to match federal outlays for JOBS efforts. Rising state deficits, partly due to escalating medicaid and other welfare costs, hindered implementation of JOBS programs. Preliminary estimates indicate that states utilized only about a third of the $800 million the federal government appropriated for JOBS in fiscal 1990. The onset of the recession is likely to further slow progress of JOBS programs.

The law represents a compromise between those who believed that able-bodied AFDC recipients should be required to work in return for assistance, and supporters of voluntary education or training. Disagreements between these opposing camps have narrowed considerably during

the past decade, and recent evidence should spur further convergence. Although intensive education and training probably hold the brightest potential for raising the long-term prospects of adult welfare recipients, work/welfare demonstrations have also produced promising though not conclusive results. Of the seven initiatives with a separate jobs component which have been evaluated, five have yielded encouraging findings and two found no impact. The two evaluations with the longest post-program follow-up periods indicated that three years after completion, participants earned 18 to 23 percent more than a control group.[23]

Vigorous federal-state job creation reforms are necessary to complement education and training efforts and to counteract the work disincentives inherent in AFDC. Offering jobs that pay more than welfare would be a powerful incentive for welfare recipients to seek work, and also raise the living standards of the beneficiaries subsisting on meager AFDC benefit levels in many states.

Job creation is essential when successful completers of education or training programs cannot find a job to utilize their newly acquired skills. The 1988 welfare reform law is likely to fail without sufficient jobs. Training does little to alleviate job deficits, and one observer has likened the public policy of providing training but not jobs to a game of musical chairs: "With sufficient coaching you may be able to help every loser in a game of musical chairs to win a seat in subsequent rounds of the game, but there is always going to be someone left standing when those rounds are completed."[24]

If Congress enacts an ongoing jobs program, it should reserve a portion of slots for AFDC recipients. Exclusive AFDC jobs projects are not advisable, because the deficiencies among this population would impair the provision of useful public services and risk jeopardizing public support for the programs. To prevent stigmatizing a jobs program, administrators should strive to achieve a balanced mix of persons with some skills and work experience with enrollees who are employable but possess little or no work experience.

Society's work is never done and there is no shortage of useful work that job creation programs could supply. A jobs program can offer ample work opportunities to fulfill needs currently unmet by the market economy. The limited skills of the workers assisted in jobs programs could be readily

matched with many functions. Child care and long-term care facilities currently rely heavily on unskilled, low wage labor. An infusion of aides in the schools and criminal justice system could enable teachers to devote more time to instruction and put more police officers on the street. Similarly, aides in strapped public hospitals can free nurses and technicians to perform skilled work. Providing services through jobs programs needs to be a continuing and stable effort, even though the aides may change as they gain experience and skills to qualify for promotions or find employment in the private sector. From the viewpoint of societal needs, it is not cost effective to operate short-term projects.

Infrastructure projects, except highly labor intensive projects, should play a secondary role in public jobs programs because they depend heavily on skilled workers. Training programs could equip disadvantaged workers with the lesser skills needed for construction projects, but because project directors found it difficult to dovetail training with the timetables inherent in such endeavors they were rarely tried. Lengthy travel distances to work sites and the temporary nature of construction projects also present severe impediments to making jobs accessible to the disadvantaged and providing a steady wage. Given the diversity of skills required on construction projects, the jobs are of extremely short duration. Average employment on Local Public Works projects lasted only four weeks, and the average local public works employee traveled 68 miles round-trip to the work site. Even workers employed at urban project sites traveled an average of 48 miles round-trip—far beyond the commuting distance of individuals without cars. Public service jobs make it considerably easier to bring the job to the idle worker. However, labor-intensive public works projects deserve a role in jobs programs, because they supply tangible and sometimes lasting evidence of the program's worth.

Disparate objectives render it impossible for public jobs programs to simultaneously meet all program goals. Considerations about which goals deserve priority are necessarily political as well as economic. Compromises may not please all parties, but the overall result will measurably reduce hardship, enhance the work ethic, improve the functioning of the economy, and provide society with needed services and public works.

Administrative Challenges

Effective management and results Jobs programs present formidable administrative challenges but federal administrators, the senior partners in the undertaking and the fund providers, failed to devote sufficient attention to their managerial responsibilities concerned with monitoring and ensuring accountability safeguards. The risk of fraud makes it imprudent to transfer federal money to state or local governments for jobs programs without appropriate oversight. Some federal managerial blunders in the 1970s were inevitable because the problems were new. The experience demonstrated the need for a thorough and timely monitoring system to anticipate and correct deficiencies. Too often the federal government had to play catch-up in response to publicized malfeasance. Without adequate monitoring, federal administrators inevitably appeared incompetent or complacent in responding to emerging problems.

Reforms which emphasized assistance to the disadvantaged were inherently salutary. However, the manner in which the federal government lurched from one objective to another, focusing single-mindedly on each in turn, severely impaired efficient operations and tarnished the program's image. The headlong rush in 1977 to hire 450,000 workers during an economic recovery period, apparently with little thought to other program goals and consequences, was an example of the excessive enthusiasm by PSE advocates.

The Employment and Training Administration in the Department of Labor never had enough troops to provide adequate oversight and monitoring of state and local operations. Too frequently Congress appropriates funds for needed programs, but neglects to provide for personnel to administer the programs it funds. The average 1977 PSE project had six subsidized positions—two thirds had five or fewer. The total number of worksites probably exceeded 100,000. Due to successive subcontracting arrangements, inadequate reporting requirements and federal restrictions on administrative expenditures, local administrators may often have had little knowledge of what public service employees were doing. Such farflung operations necessitate rigorous oversight and record keeping to ensure that projects provide useful community services and that employees adequately perform their assigned tasks. The needed oversight did not and could not have occurred due to insufficient personnel and a reluctance to intervene in local administration, sometimes driven by ideological considerations.

Congress encouraged the subsidization of jobs in nonprofit organizations, believing that these were less likely than governments to substitute federal for local funds. Subsequent evaluations bore this out, but these assessments also concluded that substitution was generally a minor problem. By other criteria, nonprofit groups do not compare favorably with government agencies. Nonprofits' small size limits the number of jobs offered, which inhibits rapid implementation and adequate oversight. The U.S. Labor Department's Inspector General recommended against subcontracting to nonprofit agencies because of the potential for abuse, and the difficulty of retrieving misspent funds.[25] Although as a group nonprofits did not serve a more disadvantaged clientele than government agencies, carefully selected nonprofit organizations may be better positioned than government agencies to augment social service jobs and to hire welfare recipients.

Restrictions on employment duration are necessary in order to spread the limited available employment slots among the jobless and to encourage enrollees to seek nonsubsidized jobs. In 1978 Congress limited public service jobs to 18 months duration. This precaution was appropriate but the concerns which inspired it were probably exaggerated. Few enrollees apparently viewed PSE slots as "tenured" employment. Except for the 1971 public employment program which provided relatively good jobs, tenure in the subsequent jobs programs was probably not a pressing problem. The average employee in the 1971 public employment program worked for 13 months. Given the importance of providing useful public services, employment of brief duration should also be of concern.

Few local PSE administrators incorporated training as an integral component of PSE jobs. Since the training was presumably for the benefit of the employees, enrollees were as a rule not compensated for time spent on training. This short-sighted approach discouraged the implementation of training which might have served enrollees to qualify for jobs in the private sector. Both participants and employers often resisted training requirements, the former because they were not paid for training and the latter because it was difficult to schedule training without impeding worksite management. The logistical difficulties of operating a jobs program were taxing enough without adding a training component. Since PSE jobs usually required little skill,

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enrollees could perform their job duties without training. Disregarding the fact that a significant proportion of PSE enrollees needed training to compete for jobs in the marketplace, defenders of the policy argued that extending training assistance to those who are already obtaining subsidized jobs constitutes "double dipping."

Subsidized jobholders, who receive wages, have less need of support services such as transportation or child care than do trainees. To achieve flexibility Congress might permit local administrators to set aside a small proportion of their funding for transportation and child care or other costs. Without a support services set-aside, public service programs did very little to provide essential assistance. This would constitute a serious shortcoming in future programs if welfare recipients were to constitute a significant component of PSE enrollees.

At a minimum, program administrators should ensure that each enrollee masters the job search skills necessary to secure an unsubsidized job upon leaving the program. Enrollees should be paid a stipend for the time spent on this instruction.

The tarnished PSE image Opponents of public service employment successfully identified the effort in the public mind with incompetence and corruption. This distorted image undermined public confidence in the endeavor, and created a climate which made it possible to terminate the program with minimal opposition. As Wisconsin Representative Robert Cornell put it in 1978, "The way to show you're against abuse is to be against this program."[26] The tarnished reputation persists despite the fact that relatively little demonstrated abuse occurred.

During the 1930s critics regularly lambasted the WPA for boondoggling, but post World War II jobs programs had largely escaped such opprobrium until 1977. The Carter administration and Congress determined to boost public service job slots from 300,000 to 750,000 in nine months—a schedule almost met. Granted the wisdom of hindsight, the necessity for this breakneck pace during a recovery period was not evident. At the end of 1976, partly to reduce the problem of substitution, Congress tightened eligibility criteria to redirect public service employment toward the disadvantaged. In their hasty mobilization, the Labor Department neglected enforcement of the 1976 law. The department instructed localities to base initial eligibility

determinations solely on an applicant's word. The media uncovered instances of abuse, which they publicized way beyond reasonable proportions. PSE opponents used the disclosures effectively to tarnish the program as ridden with corruption.

Legislation enacted in 1978 bolstered program monitoring. First, the Inspector General Act of 1978 established a new office in the Labor Department (as well as other departments) with centralized audit responsibility. Second, the 1978 CETA amendments required localities to create independent monitoring units to verify eligibility determinations and scrutinize subcontracted funds. These actions undoubtedly limited abuses, but also uncovered further instances of mismanagement which augmented the image of widespread corruption.

The evidence contradicts allegations of widespread abuse. Mismanagement, theft and corruption existed, as they do in all public or private enterprises, but the widely publicized examples were by no means representative. The definition of "waste" is highly subjective, and in a major jobs program some projects will inevitably be judged wasteful. Many WPA arts projects now highly regarded were derided at the time.

A U.S. General Accounting Office examination of selected regions indicated that roughly 2 percent of public service employment expenditures were subject to fraud or abuse. The Inspector General's audits also found that 11 percent of individuals hired during the peak 1977 build-up were probably ineligible and only about 3 percent in 1980.[27] Even if the definition of mismanagement is broadened to include allegations—many of course unsubstantiated—PSE still appears relatively clean. A major Labor Department-funded evaluation in 1979 found that only 1 of 42 jurisdictions examined evidenced a persistent pattern of mismanagement, and less than a third were guilty of isolated abuses or improprieties involving political patronage.[28]

Though unsupported by facts, the image of corruption engulfed PSE. Any future jobs program should be extraordinarily vigilant to gain and maintain public trust, and legislative safeguards will be necessary to prevent mismanagement. The thousands of organizations which provide employment in a jobs program present a formidable oversight challenge. The Labor Department's inspector general

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emphasized in 1982, "DOL cannot provide adequate management and oversight when the amount of funds subcontracted is unknown, the subcontractors are unknown, and the number of subgrantees is so great that it is beyond the capacity of any organization to provide adequate monitoring."[29] To avoid confusion and to assist future local administrators, federal regulations should spell out provisions related to eligibility documentation and verification, and cash management procedures. Periodic auditing by officials at the three levels of government would enable timely detection and correction of problems. If properly implemented, the above measures should substantially improve program efficiency and image.

Selecting the clientele Establishing appropriate eligibility rules for public job creation programs involves difficult choices. Ideally, applicants should be individuals capable of working but who fail to land a job. The characteristics of this population change, however, with fluctuations in the business cycle and from one location to another. To concentrate assistance where it is most needed, employment programs should favor the jobless from low income families, including of course adult welfare recipients. Because joblessness often does not result in immediate impoverishment, and because certain work projects require skilled employees, programs should be sufficiently flexible to extend eligibility beyond the low income jobless. The inclusion of some nonpoor would also expand the political constituency of a job creation effort.

Congress progressively tightened eligibility rules for public service employment programs as the 1970s progressed. The 1971 public employment program did not require that applicants be unemployed; they qualified if they were employed part-time or had taken full-time jobs paying less than their qualifications merited. By 1978 Congress stipulated that applicants had to have experienced at least 10 weeks unemployment as well as reside in a low income household. Throughout the decade Congress had also decreed that programs target various groups for particular attention, but the specification of 15 "special" groups resulted only in localities ignoring these rules.

Eligibility restrictions and low pay radically transformed public service employment programs by the end of the 1970s (table 4). In 1976 Congress first tightened eligibility restrictions and stipulated income eligibility for jobs

programs. Because of the severe eligibility restrictions and low wages, employers found that many participants were not job ready. In fact, jobholders differed little from training participants who should have been more disadvantaged. In 1979 a local administrator remarked that all he required of an applicant was "someone who was partially literate."[30]

TABLE 4. Public service jobs programs in the 1970s served a progressively more disadvantaged population.

	August 1971–October 1972	1975	1980
Female	28%	32%	45%
Race			
White	64	66	51
Black	22	23	36
Hispanic	7	8	8
Other	7	3	4
Education			
Less than high school	25	23	32
High school only	43	43	42
Some postsecondary	31	34	26
Family income below poverty or cash welfare recipient[1]	38	41	86
Median family income one year before enrollment	NA	$15,017	$7,843
Unemployed or out of the labor force at entry	77%	70%	87%
Unemployed for over six months	NA	20	59
Recipients of public assistance			
Any public assistance	25	26	40
Aid to families with dependent children	13	8	16
Food stamps	16	21	29
Housing assistance	4	4	9
Age			
Under 22	22	23	25
22–44	64	64	64
Over 44	14	13	12
Primary wage earner (largest share of family income)	NA	73	53
Number of dependents			
None	41	37	51
One	19	25	20
Two or more	40	38	30

[1]Welfare recipient at entry in 1980. For 1972 and 1975, receipt during the year before entry.

Sources: Westat, Inc., ***Continuous Longitudinal Manpower Survey Report No. 4,*** **November 1976, pp. 5:6, 19, 38, 56; 6:5–6, 25, 45;** ***Continuous Longitudinal Manpower Survey Report No. 14,*** pp. 48–50, 57, 59.

The 1975 Job Opportunities Program demonstrated that a labor-intensive public works project could successfully target a relatively disadvantaged clientele. Similar to the WPA, the program differed from more recent public works programs in setting eligibility criteria and requiring that most of the expenditures finance labor rather than material or equipment costs.[31]

Targeting eligibility guarantees that jobs programs exert their utmost impact on reducing unemployment, and assist those who most need help. During low unemployment periods, jobs programs should target individuals from low income households who have experienced at least 15 weeks of joblessness. In 1987 (the latest available data), two fifths of individuals unemployed 15 or more weeks had household incomes below 125 percent of the poverty line. Programs should not exclude skilled workers who fall on hard times. The inclusion of experienced workers would provide a supply of specialized skills needed to operate projects. During recessions (and in areas of high unemployment during recovery periods) eligibility rules should be loosened. To prevent the transformation of minor exceptions into gaping loopholes, local administrators should be required to justify their actions to the federal Labor Department. Eligibility criteria should not exclude individuals who have experienced substantial unemployment but have worked at temporary or part-time jobs to make ends meet. Otherwise the program would perversely discourage job search efforts among the unemployed.

Compensation Closely related to the selection of enrollees is the determination of the wages paid to them. Since a jobs project is likely to employ individuals with varied skills and work experience, designing an appropriate compensation policy presents complex issues. President Roosevelt enunciated the guiding principle that wages on jobs programs should pay more than welfare benefits but less than market wages, while serving as many needy individuals as possible with the available funds. This seemingly straightforward rule has been extraordinarily difficult to implement, however, and has often been abandoned in practice. First, in several states cash plus in-kind benefits obtained by welfare recipients provide more sustenance than minimum wage jobs. Second, to prevent jobs programs from depressing private sector wages and in response to pressure exerted by labor unions, Congress has usually required participating employers to pay prevailing wages for subsidized jobs. The latter criterion presents another set of problems because occupational wage data at the local level are limited. Local administrators judged compensation levels as more influential than eligibility restrictions in determining the program's clientele and services.

Ideally the compensation policy should provide a balance among these benchmarks: the statutory minimum wage, welfare benefits (cash and in-kind), and local wages or the cost of living. But solid data for determining a calculus based on wage or cost of living differentials are not available. For more than half a century the federal government has required a uniform statutory minimum wage because cost of living differentials among states and localities are not available. For low wage occupations, Congress might require a prevailing wage standard, even though it would be based on partial data, to prevent depressing wages among nonsubsidized workers. To encourage persons employed on subsidized jobs to seek other employment the number of paid hours might be cut so that total compensation would be significantly lower than in comparable full time private sector jobs. Under New Deal jobs programs, participants received the prevailing hourly occupational wage rate but their total earnings could not exceed a specific uniform living standard based on family size, income and geographical region. In practice, an engineer and a laborer might obtain identical earnings, but the former would work a shorter week. This policy may have been appropriate in a deep depression when any job was a good job, but be difficult to administer in a permanent jobs program.

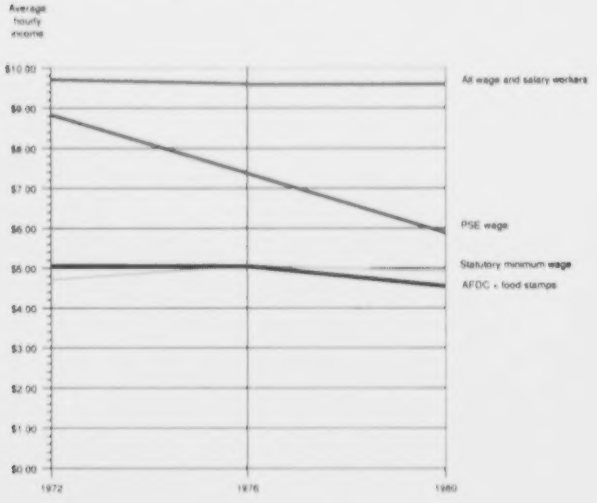
In past jobs programs, control over the hiring decision has effectively determined the basic wage policy. Large scale public works programs and subsidized private sector jobs programs have delegated wage policy to private employers. But for low skilled or unskilled on-the-job training positions, local administrators usually limit the subsidy to no more than half of wage levels.

The jobs programs of the 1970s used a different approach. While maintaining the rule that participants be paid occupational wage rates comparable with similar workers in the same agency, the federal government generally limited its wage subsidy. The limits dropped from $36,400 to $15,900 from 1971 to 1980. Under the 1971 public employment program, localities were free to supplement this amount. Therefore, projects could still hire individuals to fill high wage jobs. In 1978 Congress strictly limited supplementation, to restrict eligibility to low income individuals. As a result, local programs faced increasing difficulty in filling professional and even mid-level occupational slots. Localities evaded the restrictions to some extent by redesignating some professional jobs as

"trainee" positions (thereby escaping the prevailing wage rule), but given the low pay these openings probably enticed few skilled jobseekers.

The reduction of wage levels on jobs programs during the 1970s were initially necessary, but became far too restrictive by the decade's end. In 1980 the average hourly wage rate of PSE jobholders was only 20 percent more than the minimum wage and 30 percent more than the national median value of AFDC cash payments plus food stamps for a family of four (figure 3). Including the value of medicaid and work-related expenses, 10 or more states (depending on the value attached to medicaid) paid AFDC and food stamp benefits for a family of four at least equivalent to average public service employment wages.

FIGURE 3. By 1980, average public service employment wages dropped to little more than the federal minimum wage or the equivalent of welfare benefits.

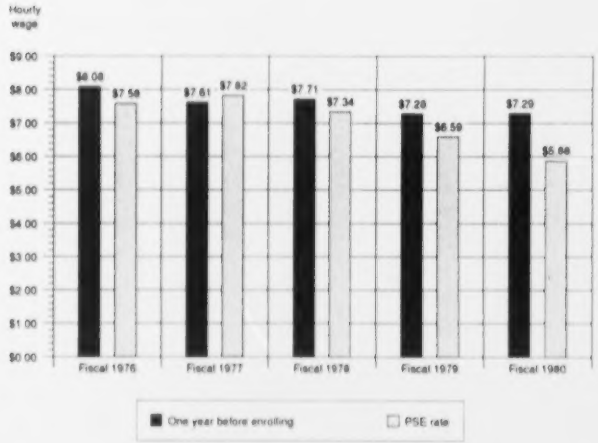


Sources: Westat, Inc., *Continuous Longitudinal Manpower Survey Follow-Up Report,* Nos. 5 and 13; U.S. House Committee on Ways and Means, *1990 Green Book,* pp. 550, 557, 1264.

The limited evidence suggests that PSE wages were too low to attract workers from unsubsidized positions, diminishing the risk that workers in private sector would seek PSE jobs. Average hourly wages a year before enrollment were close to in-program wages, except for 1980 participants, who took a substantial pay cut. If a year's worth of inflation is factored in, the average enrollee in each year took a pay

cut (figure 4). In contrast, the average Local Public Works program employee earned $18.12 hourly in 1978, six percent higher than in their previous job. The generous payments were attributable to a congressional requirement that contractors pay prevailing wages under the Davis-Bacon Act—frequently equivalent to union scales.

FIGURE 4. The average public service employee probably took a pay cut compared to his or her previous wages.



Source: Westat, Inc., *Continuous Longitudinal Manpower Survey Follow-up Report* (Rockville, Md.: Westat, various years), Nos. 3, 5, 10–13, appendix tables.

Designing a wage policy for publicly created jobs will remain a thorny problem as long as governmental policy does not ensure that work is more remunerative than welfare. A successful wage policy must reach a balance among the following benchmarks:

	Hourly rate
Median earnings for all employees (1990)	$9.17
Minimum wage (1991)	4.25
AFDC & food stamps for a four person family in median state (1990)	3.83

A sustained improvement in the earnings of former jobs participants is not the primary purpose of government job creation. Ignoring the fact that even a low paying job is preferable to idleness or dependency on welfare or unemployment benefits, detractors have castigated employment

programs for creating "dead end" jobs, as if the private sector were devoid of such positions. In fact, public service employment compares favorably with classroom training, on-the-job training, and adult work experience programs in enhancing earnings between one year before enrollment and two years after termination. Annual earnings increases declined for successive PSE cohorts, attributable to recessionary conditions at the end of the 1970s and early 1980s.

Westat, Inc. estimated the annual increase in earnings of various services compared to work experience programs, after adjusting for varying participant characteristics, length of time in CETA, and whether participants held a job at the time of termination. Compared with work experience participants, the annual earnings gains in the second year after termination follow:[52]

	July 1975–July 1976	July 1976–Sept. 1977	Fiscal 1978	Fiscal 1979	Fiscal 1980
Public service employment	$801	$741	$1173	$ 611	$ 661
Classroom training	640	570	1159	896	911
On-the-job training	902	564	1018	1048	1520

Limiting substitution In the early 1970s, Congress and federal officials faced the challenge that state and local governments would substitute federal job creation funds for their own revenue. This was no idle concern, but learning from experience, the feds successfully limited substitution after 1976. Substitution was not as deleterious as it was portrayed. In effect, it transforms job creation programs into revenue sharing programs, an approach implemented by President Nixon and the centerpiece of President Bush's 1991 domestic agenda. Local officials may also use funds freed up by substitution to finance other employment-generating activities. In fact, Labor Department sponsored evaluations estimated that localities used a quarter of the substituted funds in this manner.

Nevertheless, restriction of substitution is necessary to preserve the employment and countercyclical impact of job creation programs. Substitution is unlikely to cause serious problems in a short-term antirecessionary job creation program. However, several econometric studies, comparing trends in government employment before and after the introduction of public service employment, concluded that within a few years of implementation the substitution rate could approach 100 percent. The findings of econometric

studies fluctuated widely depending upon the assumptions made for unquantifiable factors, but the results significantly shaped employment policy.[33]

Amendments in 1976 and 1978 severely limited the likelihood that local governments would substitute PSE for local funds. In addition to the original legislative strictures against substitution, Congress reduced wage levels and the duration of both projects and individual participation, and restricted eligibility to the low-income, long-term unemployed. Congress in fact guarded too vigilantly against substitution, at the expense of operating an efficient program. Eligibility restrictions and low pay made it extremely difficult to undertake worthwhile and well-run projects and services, undermining public and local governmental support.

The extreme volatility of federal funding precluded localities from counting their PSE eggs before they were hatched. Congress usually did not appropriate PSE funds until just before the fiscal year began, and sometimes after that. Labor Department directives consequently oscillated between hiring freezes and rapid build-ups. The uncertainty about future funding inhibited substitution because local administrators were left with the Hobson's choice of laying off hired workers or covering their wages with state or local funds. President Ford planned to phase out PSE jobs by the end of fiscal 1977, but following President Carter's election, Congress enacted a major expansion. By March 1978, PSE had reached its apex of 750,000 jobs, but by the year's end that level declined by more than 200,000. A little over two years later the Reagan administration and Congress terminated the program just before the onslaught of the 1981–82 recession. The elimination of 300,000 PSE jobs boosted unemployment and indicated that substitution was not prevalent, as less than two fifths found unsubsidized jobs, and only a fifth found government jobs.[34]

The only study to undertake a detailed examination of the employment impact of PSE at the local level concluded that little substitution occurred. This study, which consisted of four successive evaluations, estimated that the substitution rate declined from 18 percent in mid 1977 to 11 percent in late 1980.[35]

To limit substitution, a long-term job creation effort should focus on the job needs of welfare recipients and low income unemployed. But projects should include some semiskilled and skilled long-term jobless individuals. This

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flexibility is necessary to operate well-run projects and maintain political support. Rollercoaster funding levels discourage substitution but severely diminish program efficiency.

JOB PROGRAMS FOR THE 1990S

The costs of a jobs program are often cited as an argument against the undertaking. Yet the price of inaction is compelling even if it does not appear as a line-item in the federal budget. Rising unemployment rates have demonstrated a consistent correlation (sometimes after a lag) with mortality, health impairments, crime, mental illness, and divorce rates.[36] In good times or bad, public policy should minimize the waste of potentially productive idle individuals.

The needs of dealing with the disturbing high federal deficit are of course paramount, but the needs of the unemployed and welfare recipients remain compelling and should not be ignored. The current recession should provide Congress a stimulus to consider the jobs program an exception to the 1990 deficit reduction law's requirement that new spending be offset dollar for dollar by either tax increases or spending cuts and declare that a jobs program comes under the emergency provision of the 1990 budget reduction legislation. An effective jobs program should also tie future appropriations automatically to increases in the unemployment rate. Arguments that job creation efforts will not be needed once the recession is "officially" over are flawed. While Bush administration economists project that the current recession will be short and shallow, they also predict that unemployment will not drop significantly until 1993.

Unemployment rates have increased by a little more than three percentage points in the average post-World War II recession. If the current recession is of average magnitude, the ranks of the jobless might swell by about 3.7 million above the prerecession low point and welfare caseloads will

also increase. Including administrative outlays and fringe benefits, average annual costs per public service employment slot during the latter half of the 1970s ranged from $15–17,000, while lower paid work experience positions cost $11–12,000.[37] Based on expenditures in the 1970s, to reduce unemployment by half a percentage point would carry a price tag of about $8 billion. A more frugal program administration would reduce the costs per job appreciably. An average hourly wage of 20 percent above the statutory minimum plus 20 percent for administration yields an hourly rate of $6.12 and annual costs per job of $12,730 and $6.4 billion for 500,000 jobs. Reducing the hourly rate to 110 percent of the minimum wage would cut the program cost to $5.8 billion. An investment of about $6 billion would fill less than a sixth of the job deficit in 1992 (above the 4 percent level) forecast by the Council of Economic Advisors.

Services and labor intensive public works projects should be emphasized because of their advantage in boosting employment quickly, targeting the jobless least likely to find work on their own, and investing funds in jobs rather than materiel. Heavy construction projects should not be part of a permanent effort even though they provide tangible, lasting evidence of the worth of jobs programs. Construction projects should be considered separately as part of shoring up the neglected American infrastructure. Arguments urging Congress to maximize job creation by requiring relatively more affluent communities to provide matching funds to supplement the federal investment have appeal, but would draw strong opposition from members representing the affected areas and are therefore impractical. Pragmatism must take precedence over fairness if a jobs program is to have any chance of enactment.

Proper wage and eligibility policies are essential to ensure that jobs programs draw upon the population that is job ready yet not able to secure work. Wage policy veered during the 1970s from generous to miserly without striking a balance among such factors as average wages, welfare benefits, and the statutory minimum wage. Local supplementation of wages should be sharply limited to discourage substitution. Depending upon the size of the program, low wages for unskilled labor may depress the wages of workers in private or regular public sector jobs, and consequently generate opposition from the affected workers and unions

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toward jobs programs. Congress should also earmark funds to permit incentives for subsidized workers who demonstrate exemplary performance. Hard work and accomplishment should not go unrewarded, lest it be discouraged.

Eligibility criteria should emphasize largely—but not exclusively— the long-term jobless low income population and job ready welfare recipients. Eligibility criteria should not exclude individuals who have experienced substantial unemployment but have worked at temporary or part-time jobs to make ends meet. Otherwise the program would perversely discourage job search efforts among the unemployed. The current Congress is unlikely to tamper with the compromise which produced the 1988 Family Support Act, but the next reform should promote a jobs rather than a cash entitlement.

The federal government should also integrate a jobs program with extended and supplemental unemployment insurance benefits. Regular UI benefits, generally paid for up to six months of unemployment, should remain intact because they are financed by employer contributions through a payroll tax. If Congress provides for extended benefits (covering in the past the sixth to ninth month of unemployment) and supplemental benefits (after the ninth month), these programs should be reoriented toward provision of a job rather than income support. Both UI programs operate only in recessionary periods. Long-term unemployed would be offered a job paying a wage equivalent to the eligible workers UI benefit and the number of hours worked would depend on the hourly wage for the performed work.

A short-term antirecessionary jobs program carries little risk of the substitution of federal for local resources. But a permanent program necessitates safeguards to minimize substitution. In addition to an outright prohibition, most of the suggested reforms will also restrict opportunities for substitution. Restricting enrollment to a year and a half will encourage participants to find work outside the program and spread the limited available employment opportunities.

Jobs programs have made and can make a tangible difference in alleviating hardship, supplying valued services (including labor intensive public works), and promoting the work ethic. Past mistakes justify improving—not abjuring—

future efforts. As President Roosevelt put it best in defending similar New Deal programs, "Better the occasional faults of a government that lives in a spirit of charity than the consistent omissions of a government frozen in the ice of its own indifference."[38]

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APPENDIX

Annual Average Consumer Price Index (CPI-U) and (CPI-U-X1): 1960 to 1990

(1982–84 = 100.0)

Year	CPI-U	CPI-U-X1[1]
1960	29.6	32.2
1961	29.9	32.5
1962	30.2	32.8
1963	30.6	33.3
1964	31.0	33.7
1965	31.5	34.2
1966	32.4	35.2
1967	33.4	36.3
1968	34.8	37.7
1969	36.7	39.4
1970	38.8	41.3
1971	40.5	43.1
1972	41.8	44.4
1973	44.4	47.2
1974	49.3	51.9
1975	53.8	56.2
1976	56.9	59.4
1977	60.6	63.2
1978	65.2	67.5
1979	72.6	74.0
1980	82.4	82.3
1981	90.9	90.1
1982	96.5	95.6
1983	99.6	99.6
1984	103.9	103.9
1985	107.6	107.6
1986	109.6	109.6
1987	113.6	113.6
1988	118.3	118.3
1989	124.0	124.0
1990	130.7	130.7

[1]This paper uses the Consumer Price Index-U-X1 to convert current to 1990 dollars.

Source: U.S. Bureau of Labor Statistics

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